

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 IGA-02
/084 W

-----022661 090415Z /21

R 090144Z SEP 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 4852
INFO TREASURY WASHDC

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PLEASE PASS FEDERAL RESERVE BOARD

EO 11652: N/A
TAGS: EFIN, MX
SUBJECT: BANK OF MEXICO PROPOSAL FOR BACK TO BACK LOANS.

REF: MEXICO 3090, MEXICO 11976

1. SUMMARY: APPLICATIONS FOR BACK TO BACK LOANS NOW
TOTAL \$700 MILLION, FIRST LOANS TO BE ACTIVATED SEPTEMBER
NINTH. END SUMMARY.

2. THE PROPOSED BACK TO BACK LOANS HAVE GENERATED CON-
SIDERABLE INTEREST. APPLICATIONS TOTALING \$700 MILLION
HAVE BEEN RECEIVED BY THE BANK OF MEXICO. AN INTERNAL
BANK COMMITTEE HAS APPROVED APPLICATIONS FOR MORE THAN
\$200 MILLION. THE TECHNICAL PROBLEMS HAVE APPARENTLY BEEN
RESOLVED AND THE FIRST TRANSACTIONS ARE TO BE MADE SEP-
TEMBER NINE. THEY STILL DO NOT PLAN TO MAKE A PUBLIC
ANNOUNCEMENT OF PROGRAM.

3. THE BANK OF MEXICO WILL TAKE FOREIGN CURRENCY DEPOSITS
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IN ANY MAJOR CONVERTIBLE CURRENCY, AND WILL PAY THE SIX
MONTH LIBOR NET OF MEXICAN WITHHOLDING TAX. THE PESO
LOANS WILL BE MADE INITIALLY AT RATES OF ABOUT 22 PERCENT
FOR WORKING CAPITAL LOANS AND 20 PERCENT TO INVEST IN
FIXED ASSETS, PLUS A SMALL COMMISSION FOR THE MEXICAN BANK
ACTING AS INTERMEDIARY. WHILE THE BACK TO BACK LOANS CAN
BE FOR UP TO SEVEN YEARS, THE INTEREST RATES WILL BE

ADJUSTED EVERY SIX MONTHS. THE PESO RATE IS TO BE DETERMINED AS A FIXED AMOUNT OVER THE AVERAGE COST OF FUNDS TO FINANCIERAS, WHICH ARE INVESTMENT BANKS THAT ACCEPT ONLY FIXED-TERM DEPOSITS. THE PESO INTEREST RATES WILL BE LOWERED IF THE BORROWER INCREASES HIS EQUITY. THE LOANS WILL BE EXECUTED AS THERE IS A NEED FOR FUNDS. THAT IS, THE BORROWER NEED NOT OBTAIN HIS PESOS, OR MAKE HIS DOLLAR DEPOSIT UNTIL HE REQUIRES THE FUNDS.

4. INTEREST IN THESE LOANS INDICATES THE GREAT AMOUNT OF CONCERN THAT BUSINESSMEN HAVE OVER THE FLOATING EXCHANGE RATE. SOME FOREIGN BANKERS HAVE EXPRESSED CONCERN THAT THIS PROGRAM WILL PUT THE BANK OF MEXICO INTO A DANGEROUS POSITION SHOULD THERE BE A RUN TO LIQUIDATE THESE LOANS. THEY CITE A SIMILAR FACILITY IN TURKEY THAT HAS CAUSED PROBLEMS FOR THAT COUNTRY. THOMPSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Errors: N/A
Expiration:
Film Number: D770326-0723
Format: TEL
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770981/aaaacqoy.tel
Line Count: 77
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Review Content Flags:
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TAGS: EFIN, MX
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